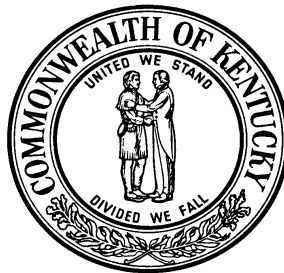


**REPORT OF THE AUDIT OF THE
POWELL COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
June 2, 2007 Through May 30, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
POWELL COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
June 2, 2007 Through May 30, 2008

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for Powell County Sheriff for the period June 2, 2007 through May 30, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,462,296 for the districts for 2007 taxes, retaining commissions of \$102,359 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,359,514 to the districts for 2007 taxes. Taxes of \$315 are due to the districts from the Sheriff and refunds of \$92 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Darren Farmer, Powell County Judge/Executive

Honorable Danny Rogers, Powell County Sheriff

Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the Powell County Sheriff's Settlement - 2007 Taxes for the period June 2, 2007 through May 30, 2008. This tax settlement is the responsibility of the Powell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Powell County Sheriff's taxes charged, credited, and paid for the period June 2, 2007 through May 30, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Darren Farmer, Powell County Judge/Executive

Honorable Danny Rogers, Powell County Sheriff

Members of the Powell County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

August 19, 2008

POWELL COUNTY
DANNY ROGERS, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period June 2, 2007 through May 30, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 314,411	\$ 343,887	\$ 1,008,736	\$ 406,115
Tangible Personal Property	21,318	23,783	68,395	79,697
Fire Protection	1,225			
Increases Through Exonerations	242	265	776	313
Omitted Taxes	66	71	213	86
Franchise Taxes	34,013	38,578	109,672	
Clay Property Taxes	48	53	155	63
Additional Billings	310	340	996	401
Oil and Gas Property Taxes	543	594	1,741	701
Limestone, Sand and Mineral Reserves	490	536	1,571	632
Bank Franchises	100,440			
Penalties	4,644	5,066	14,852	6,221
Adjusted to Sheriff's Receipt	(82)	(63)	(203)	(50)
Gross Chargeable to Sheriff	<u>477,668</u>	<u>413,110</u>	<u>1,206,904</u>	<u>494,179</u>
<u>Credits</u>				
Exonerations	2,072	2,265	6,644	2,675
Discounts	6,733	5,119	14,985	6,722
Delinquents:				
Real Estate	12,465	13,597	39,883	16,057
Tangible Personal Property	<u>35</u>	<u>39</u>	<u>111</u>	<u>163</u>
Total Credits	<u>21,305</u>	<u>21,020</u>	<u>61,623</u>	<u>25,617</u>
Taxes Collected	456,363	392,090	1,145,281	468,562
Less: Commissions *	<u>19,683</u>	<u>16,664</u>	<u>45,811</u>	<u>20,201</u>
Taxes Due	436,680	375,426	1,099,470	448,361
Taxes Paid	436,645	375,212	1,099,337	448,320
Refunds (Current and Prior Year)	<u>35</u>	<u>32</u>	<u>95</u>	<u>38</u>
Due Districts or as of Completion of Audit	<u>\$ 0</u>	<u>\$ 182</u>	<u>\$ 38</u>	<u>\$ 3</u>

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
DANNY ROGERS, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES
For The Period June 2, 2007 through May 30, 2008
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,307,015
4% on	\$	1,145,281

** Special Taxing Districts:

Health District	\$	274
Extension District		<u>(92)</u>

Due District or		
(Refund Due Sheriff)	\$	<u><u>182</u></u>

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

May 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Powell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
May 30, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Powell County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was June 2, 2007 through May 30, 2008.

Note 4. Interest Income

The Powell County Sheriff earned \$2,183 as interest income on 2007 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Powell County Sheriff collected \$27,593 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Powell County Sheriff collected \$1,050 of advertising costs and \$2,375 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Darren Farmer, Powell County Judge/Executive
Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Powell County Sheriff's Settlement - 2007 Taxes for the period June 2, 2007 through May 30, 2008, and have issued our report thereon dated August 19, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Powell County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Powell County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Powell County Sheriff's Settlement – 2007 Taxes for the period June 2, 2007 through May 30, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Powell County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Powell County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 19, 2008

COMMENT AND RECOMMENDATION

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period June 2, 2007 through May 30, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office staff consists of 1 deputy clerk and 1 bookkeeper who collect receipts. The bookkeeper prepares daily checkouts and posts to the receipts ledger. The bookkeeper prepares the deposit slips, deposits money into the bank, prepares bank reconciliations and posts to the ledgers. The Sheriff's bookkeeper prepares, posts and mails all checks for disbursements. The Sheriff reviews disbursements and signs all disbursement checks including disbursements for payroll. He does not require dual signatures. Good internal controls dictate the same employee should not handle, record and reconcile receipts. The Sheriff should implement steps to strengthen internal controls:

- The Sheriff should review the disbursements ledger to agree to checks.
- The Sheriff should personally deliver monthly reports and tax distributions checks to the districts and receive a signed receipt from the taxing districts.
- The Sheriff should review the receipts ledger and agree it to daily checkouts and deposits into the bank.
- The Sheriff should review the bank statements and reconciliations and agree bank balances to the ledgers.

These procedures should be documented by the Sheriff initialing the above-mentioned records.

Sheriff's Response: Will try.

